Technical Note
Gross Domestic Product, Fourth Quarter 2001 (Final)
March 28, 2002

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; the note also provides some perspective on the estimates. Additional material will become available in the next several days; much of it will be posted to BEA's Web site <www.bea.gov>. In a few weeks, the estimates will be published in BEA's monthly journal, the *Survey of Current Business*. The *Survey* also will provide a more detailed analysis of the estimates ("The Business Situation").

Gross Domestic Product: Fourth Quarter 2001 (Final)

Real GDP (revised): Real GDP is now estimated to have increased at an annual rate of 1.7 percent in the fourth quarter of 2001, 0.3 percentage point more than in the preliminary estimate. Real GDP decreased 1.3 percent in the third quarter. As in the preliminary estimate, the upturn in real GDP growth reflected accelerations in consumer spending and government spending.

Prices (revised): The chain-type price index for gross domestic purchases is now estimated to have increased 0.5 percent in the fourth quarter; the preliminary estimate had shown an increase of 0.4 percent. The index had decreased 0.1 percent in the third quarter.

Sources of Revision: The upward revision to fourth-quarter real GDP was mostly accounted for by an upward revision to exports of services and a downward revision to imports of services. These revisions reflected revised and newly available BEA survey data.

The small upward revision to the price index for gross domestic purchases primarily reflected a upward revision to the price for PCE services; the implicit price for imputed financial services was revised up based on newly available FDIC call report data.

Corporate Profits and GNP

The news release that presents the final estimate of fourth-quarter GDP also presents the first estimates of corporate profits and gross national product (GNP) for the quarter.

Corporate Profits: Profits from current production increased 17.9 percent (quarterly rate) in the fourth quarter--the largest increase since the 21.4-percent increase in the second quarter of 1946. Profits decreased 8.3 percent in the third quarter of 2001. Fourth-quarter 2001 profits were 3.0 percent lower than profits in the fourth-quarter 2000. The current-production measure of profits differs from profits as they are usually reported in corporate financial statements. It excludes non-operating items, such as special charges and capital gains and losses, and is based on depreciation of fixed assets and inventory withdrawals valued at current cost, rather than at historical cost.

The change in profits was affected by several special factors. In the third quarter, insurance profits had been reduced by the payment of insurance benefits associated with the September 11th terrorist attacks; current information suggests that the payments, net of foreign reinsurance, amounted to about $40 billion (annual rate). In addition, airline profits in the third quarter had been increased $20 billion (annual rate) by the subsidies received as part of the special airline bill passed by Congress after the attacks.

<u>Retroactive Provisions of the Job Creation and Worker Assistance Act of 2002</u>: The Job Creation and Worker Assistance Act of 2002 was signed into law on March 9, 2002. The act includes certain retroactive provisions related to depreciation and to the carryback period for net operating losses: It allows an immediate write-off of 30 percent on certain investments contracted for after September 10, 2001, and before September 11, 2004; it includes tax benefits retroactive to September 11th for the area of New York City that was damaged in the terrorist attacks; and, for tax year 2002 and retroactively for tax year 2001, it temporarily extends the period for carrying back net operating losses to 5 years from the current 2 years.

The fourth-quarter estimates of corporate profits shown in this release have been adjusted to reflect the retroactive provisions of the act that affected corporate tax liability. These adjustments were incorporated on a “best-change” basis using preliminary estimates provided by the Treasury Department.[1] The adjustments reduced the fourth-quarter change in <u>profits before taxes</u>, which reflects the inventory-accounting and depreciation-accounting practices used for federal income tax returns, by $146.5 billion and increased the fourth-quarter change in the corporate <u>capital consumption adjustment</u> (CCAdj) by the same amount. <u>Profits from current production</u> are not affected, because this series does not depend on the depreciation-accounting practices used for federal income tax returns; rather, it is based on depreciation of fixed assets valued at current cost and using consistent depreciation profiles based on used-asset prices. The adjustments reduced the fourth-quarter change in <u>profits tax liability</u> by $35.3 billion and reduced the fourth-quarter change in <u>profits after tax</u> by $111.2 billion.

As with corporate profits from current production, the effects of the retroactive provisions of the act on nonfarm proprietors’ income with inventory valuation adjustment

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[1]Thus, the adjustments reflect the changes from the revised third-quarter levels of a series to the revised fourth-quarter levels. The quarterly <u>levels</u> of these series will be revised to incorporate the effects of the act in the upcoming annual revision of the national income and product accounts (NIPA’s), scheduled for release on July 31, 2002. The NIPA personal tax series are recorded on a cash basis; thus, the effects of the act on personal taxes paid by proprietors will be reflected in the estimates for 2002.

(IVA) and CCAdj (tables 8 and 9) were offsetting; nonfarm proprietors' income without IVA and CCAdj was reduced and the related CCAdj was increased by the same amounts. The other major national income and product account components or aggregates shown in this release were not affected.

Real GNP: Real GNP increased 2.6 percent in the fourth quarter, 0.9 percentage point more than the increase in real GDP; GNP decreased 1.3 percent in the third quarter. GNP equals GDP plus incomes, mainly on investments, earned abroad by U.S. residents, less similar incomes earned in the United States by residents of other countries. Net income receipts by U.S. residents increased $21.0 billion in the fourth quarter; receipts decreased $25.8 billion and payments to foreign residents decreased $46.8 billion.

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